

~~SECRET~~

DOCUMENT NO. 10005-4
NO CHANGE IN CLASS. ☐
~~X~~ DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 12-02-79
AUTH: HR 70-2
DATE 12-02-79

DRAFT

25X1

OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 16
WEEK OF 24 AUGUST - 30 AUGUST 1948

6 September

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The Chinese Government in a formal note charged the Siamese Government with violation of the Sino-Siamese Treaty of Amity (page 3).

The planned reorganization of the Japanese Banking structure is designed to eliminate its former monopolistic position with regard to Japanese industry (page 4).

Britain and China, as well as the USSR, are critical of the Japanese Government labor policy (page 4).

Soviet attempts to use the 25 August elections in North Korea as the basis for claiming "national" status for the puppet Democratic People's Republic of Korea will be handicapped by the recent denunciation of the election by leading South Korean leftist and moderate groups (page 5).

The general lull continued on all Chinese military fronts during the past week (page 6). The political situation was highlighted by continuing mass student arrests throughout all major Chinese cities (page 6). Former Premier CHANG Chun is currently visiting Japan in order to obtain the facts regarding US intentions vis-a-vis Japan (page 6). LI Chi-shen informed a US Consular official that FENG Yu-hsiang is returning to China via Moscow (page 6). Present trends indicate the general "slow down" tactics of the Chinese Communists regarding land reform are not abating (page 7). The National Government's economic situation appears temporarily stabilized as a result of the new currency program although the general consensus remains pessimistic (page 7).

25X1

~~SECRET~~

SECRET

-2-

SUMMARY (continued)

A critical impasse in GOC negotiations has been reached in Indonesia (page 8).

The insurrection in Burma continues unabated and indecisive (page 8).

Scattered clashes in the Philippines between the Huks and Constabulary may signal failure of amnesty program (page 9).

A summary of the conclusions reached as a result of a survey by Army Department officials in regard to the procurement of food for Japan from Far Eastern sources--SECTION III (page 10).

SECRET

SECRET

-3-

SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

The Chinese Government in a formal note charged the Siamese Government with violation of the Sino-Siamese Treaty of Amity

"B"

The Chinese Government in a formal note charged the Siamese Government with violation of the Sino-Siamese Treaty of Amity in the arrest of certain Chinese nationals, and demanded their immediate release. Referring to these arrests, the note pointed out that the Siamese authorities have neither informed the Chinese Consulate General in Bangkok of the reasons for the arrests nor made public the charges preferred against the Chinese nationals concerned. Although these arrests which followed the recent outlawing of the Chinese Kuomintang in Siam are another indication of the anti-Chinese policy of the present Siamese Government, the Chinese Government, in its present weak position, can do little more than protest via the diplomatic channels any discrimination against its nationals in Siam.

SECRET

SECRET

-4-

JAPAN

Reorganization of Japanese banking structure planned. A banking reform bill is to be submitted to the next Diet Session which will have the effect of reorganizing the Japanese banking structure. The bill contemplates a system comparable to the Federal Reserve Banking System in the US. The Bank of Japan would still be the central bank but absolute governmental control over it would be removed. Special privileges would no longer be available to banks, and monopolistic controls of banking would be prohibited. Meanwhile, steps are being taken to reorganize Japan's "big six" banks, formerly owned and operated by the Zaibatsu. "B"

The proposed banking bill and bank reorganization would have the effect of denying to the government and to large industrial interests the opportunity to utilize vast financial resources for their own advantage. In the pre-war period, the Japanese government used special institutions such as the Yokohama Specie Bank for political purposes in foreign countries. In like manner, the Zaibatsu had their own great banks which enabled them to have at their disposal funds for their expansion; and at the same time through their control over capital, they were able to maintain a strong monopolistic position in the Japanese industrial world.

British and Chinese criticize Japanese government labor policy. British and Chinese members of the Allied Council for Japan criticized Japanese government labor policy at a special meeting of the Allied Council for Japan on 28 August. The meeting was called to enable the US chairman to reply to a letter from the Soviet representative demanding recall of SCAP's suggestions for the limitation of the trade union rights of Japanese public servants and the repeal of the Japanese government ordinance issued in implementation thereof. US delegate Sebald defended the Japanese government's action as necessary to prevent minority pressure groups from utilizing labor unrest to seize political power. Both British Commonwealth representative Patrick Shaw and Chinese delegate General Shang Chen noted that the Japanese government's order appeared to exceed the scope of General MacArthur's suggestions. While recognizing the justification of a temporary curtailment of rights Shaw recommended great care in the consideration of their curtailment in the drafting of long term legislation. He disagreed with Sebald's contention that the FEC directive regarding trade unions in Japan did not concern government workers. General Chen expressed apprehension lest reactionary elements in Japan take advantage of the revision of labor laws to obstruct the healthy development of the labor movement. "B"

Criticism of labor policy in Japan expressed in the Allied Council is limited in its effectiveness by the advisory character of the Council. Japanese opponents of the current restrictions, however, may derive some support from the public display of disagreement by Council members who

SECRET

SECRET

-5-

JAPAN (Cont.)

have been content in the past to "go along" with SCAP on most matters of Japanese internal administration. Resumption of Far Eastern Commission meetings next week after a summer recess presages further discussion and review of policy regarding the rights of Japanese civil servants.

KOREA

North Korean authorities have formalized the establishment of a rival "national" government. With the election of representatives to the Supreme People's Assembly of the Democratic People's Republic of Korea on 25 August, the Kremlin completed the groundwork for countering the recognition claims of the Republic of Korea at the September meeting of the United Nations General Assembly (UNGA). The claim of the Democratic People's Republic as the true "national" government will rest on the fact that it includes 360 representatives from South Korea elected at the recent Haeju conference by about 1000 delegates alleged to have been chosen by 77.48 per cent of the South Korean voters.

"A"

The People's Assembly will convene on 2 September at which time Kim Il Sung will undoubtedly be elected President. Messages of recognition from the Soviet Union and her satellites will probably follow.

In preparation for the establishment of this rival "national" government, the North Korean Communists attempted to gain the support of leading South Korean "anti-separatists." However, following the initial success of the Pyongyang "unity" conference of last April, the high-handed political tactics of the North Korean Communists gradually alienated the leading South Koreans who had attended the conference out of a sincere desire for national unification. On 25 August, 25 South Korean political parties who had participated in the April conference compensated for their earlier boycott of the South Korean elections by denouncing all recent activities in North Korea. This statement constitutes a strong rebuttal to the probable Soviet claim at the UNGA fall meeting that the Democratic People's Republic has the undivided support of all South Korean political organizations not included in the rightist-dominated South Korean government.

SECRET

SECRET

-6-

CHINA

The general lull in military activity continued through the past week. "A"
In Central and North China, however, three separate Communist groups are presently moving northward. Elements of CHEN Yi's forces have crossed the Lunghai Railroad into southwest Shantung and may be bound for Communist areas north of the Yellow River. Three of LIU Po-cheng's columns are moving north from the Hsuehchang area in the general direction of Chenghsien, important Nationalist city at the junction of the Peiping-Hankow and Lunghai rail lines. Farther north, Communist troops of NIEH Yung-chen, recently active in the Paoting area, are moving into South Chahar, from where they will probably launch attacks on the Peiping-Suiyuan Railway. The Nationalists now believe that autumn will bring renewed Communist drives in Manchuria but, thus far, there have been no major Communist military movements in that direction. In this connection, an official of the Northeast Bandit-Suppression Headquarters recently stated that the Nationalist garrison at Changchun cannot be supplied with fuel and cannot, therefore, be expected to hold the city after the cold weather arrives.

The National Government is continuing mass arrests of students in all "B"
major cities. In Peiping many students are escaping to Communist territory to avoid arrest and apparently the authorities are satisfied with this means of destroying their power. Fifty-five Peiping professors this week criticized Government action, but no violence has occurred, perhaps because many students are away on vacation. The break-up of student organizations has led to the opinion in that city that the next school year may be quieter. It does not appear, however, that stricter Government action will permanently solve the student problem.

The present visit of former Premier CHANG Chun to Japan is connected "B"
with an overall plan of CHIANG Kai-shek to persuade potentially dissident Chinese elements to remain loyal to Nanking, so the State Department has informed the Acting Political Adviser to Tokyo. Presumably, CHANG Chun will explain to the Chinese people on his return, after a lengthy survey, that the US aid program in Japan will not injure but will help China.

FENG Yu-hsiang is returning to China from the US via Moscow and will "B"
not arrive until a People's Consultative Conference is convened in Communist territory, according to LI Chi-shen. FENG is a member of LI's Kuomintang Revolutionary Committee. However, plans for this conference, to be convened by the Chinese Communists and the Kuomintang dissidents under LI, still appear vague. LI has said that it will be held some time between 10 October and next spring but that success depends on the Communist capture of a politically strategic Central China city. The Communists have as yet made no definite statement. LI, although claiming to be anti-Communist, is trying

SECRET

SECRET

-7-

to utilize the Communists to advance his own cause. His negotiations with the Communists thus far imply that he will have a major role in the conference, but it appears likely that any role LI and FENG might play in a coalition with the Chinese Communists will result in the former being reduced to the status of Red pawns.

The Communists appear to be slowing down their land reform and instituting a more lenient attitude toward missionaries in newly liberated areas, following a modified policy laid down several months ago. National Government propaganda is playing up reports of six reformed Communists concerning dissatisfaction in Communist territory. The Communists are probably facing administrative problems in instituting their program but from their point of view it is logical that a sound program cannot be based on too sudden a change.

"B"

25X1

US \$27,200,000 in gold, silver and foreign currency had been surrendered to Chinese banks by 30 August, 1948, indicating the black market in hard currency has virtually disappeared for a short time. The wave of arrests, fines, and confiscations in Shanghai markets during the week shows that some prices are being pushed above the pegged levels. The general feeling in Chinese banking circles and foreign communities is that inflation and the black market are merely temporarily curbed. The present lull appears to be due more to a "wait and see" attitude than to confidence in the new financial controls.

"B"

The Chinese Foreign Office has requested US Government assistance in enforcing one of the most ticklish of the recent financial regulations-- registration and control of private Chinese assets in the US. The Embassy again informed the Chinese, as it had earlier this month that the US could do nothing.

"C"

25X1

The Shanghai Market:	US \$ Exchange (Selling Rate)		Wholesale Price of Rice "C" per 172 lb picul
	Official "open"	Blackmarket	
This week (24 Aug 48)	GY*\$ 4.00	GY \$ 4.50(?)	GY \$ 19.00
Week ago (17 Aug 48)	CN \$480,000	CN \$11,700,000	CN \$65,000,000
Month ago (24 Jul 48)	480,000	6,800,000	36,000,000
Year ago (24 Aug 47)	12,000	42,000	450,000
* 1 GY(Gold Yuan) = 3,000,000 CN			

SECRET

SECRET

-8-

INDONESIA

Critical impasse in GOC negotiations continues. The position in Indonesia of the UN Good Offices Committee (GOC) remains precarious. While the Netherlands Government continues its efforts to complete a draft act for an interim government for all of Indonesia which would limit the influence of the Republic, the GOC is faced with the immediate necessity of advancing a formula for continued negotiations. The Republican Government has already challenged the legitimacy of any interim government created outside the GOC negotiations and may be expected to make a determined appeal to the UN Security Council if the GOC does not offer a workable compromise. The Dutch plan envisages the completion of discussions with non-Republican elements by the end of August, approval of the act in the Netherlands by the end of September, and the establishment of an interim government by the end of October. The US Delegation in the GOC faces a particularly critical period in view of its tacit approval of this display of Dutch initiative outside the GOC. Unless this dilemma is resolved in the near future the "final" Republican appeal to the Security Council is likely to emerge as a major test of US and USSR influence in the Republican Government which shows increasing signs of becoming a militantly left-wing organization.

"A"

BURMA

Insurrection continues indecisive. The insurrection in Burma continues unabated and indecisive. Although there is still no evidence of an overall coordination of rebel groups and while the Government forces generally have the upper hand in combat, the rebels are free to carry on their activities in large areas of the country. The result has been a steady economic deterioration with Rangoon already experiencing rising prices. Water and rail transportation have been effectively disrupted, the timber industry has been brought to a standstill and the export of rice seriously curtailed. In addition, and perhaps representing evidence of precise outside direction, Burma's only cement plant, located about 200 miles north of Rangoon, which produced nearly enough cement before the war to satisfy the country's needs and which was scheduled to begin operations on 1 September, has been sabotaged to the extent that it now cannot be put into operation before 1950. Under these conditions the present Government will probably continue its struggle for survival as long as it can anticipate effective outside assistance and feels that there is a reasonable chance of suppressing the insurrection. However, if the Government fails to make progress against the rebels or becomes convinced that its overthrow is inevitable it is possible that: (1) Prime Minister Thakin Nu may again attempt to reach an agreement with the rebels, and (2) Government officials, of increasing importance, may go over to the rebels thus precipitating the gradual disbandment of the present regime. In any case the result would be a formation of a new

"B"

SECRET

SECRET

-9-

BURMA (continued)

coalition government far more to the left, but without the capabilities of maintaining stability in Burma for any appreciable length of time.

PHILIPPINES

Peace and order deteriorate in central Luzon. Peace and order, which "B" has generally prevailed in central Luzon since mid-May, has recently given way to scattered clashes between the Huks and the Constabulary. Although President Quirino claims a moral victory for his amnesty program, Huk leader and Congressman Luis Taruc has stated that peace efforts have failed. Both Quirino and Taruc have attacked each other. The President has accused Taruc and his subordinates of being opportunistic Communists instead of constructive peasant leaders. Taruc, in an open letter, has charged that the Quirino administration has not lived up to its commitments and declares he will continue to lead the peasants and to preserve the peace but that he will never submit to a peace "imposed by imperialist guns." Taruc concludes, however, that: (1) there can be no democratic peace "as long as we are under imperialist domination"; (2) democratic peace can be guaranteed only by "the close working unity of the workers and peasants"; and (3) "legal, constitutional, parliamentary methods of struggle alone cannot achieve democratic peace." Taruc's final statement was quickly repudiated by the leader of the Democratic Alliance (the party on whose ticket he was elected to Congress) and his attempt to place blame for the amnesty program "failure" on the Government has drawn blunt criticism from a hitherto friendly local paper. Meanwhile, the Government appears confident of its course and is planning to proceed with a social amelioration program as well as undefined measures for maintaining law and order.

SECRET

SECRET

-10-

SECTION III. DIGEST OF IMPORTANT STUDIES AND ESTIMATES

FACTORS AFFECTING FAR EASTERN FOOD PROCUREMENT IN JAPAN

(a) Japan is already making near maximum use of its arable land. There is no prospect that Japan's food import requirements will diminish in the foreseeable future; there is strong likelihood, in fact, that these requirements will be increased to compensate for the increasing population and to provide for a level of feeding above bare subsistence. "B"

(b) The degree of control exercised over the distribution of food in Japan is more stringent than in any other country in the world.

(c) The food collection program initiated by SCAP during the last rice harvest represented the maximum feasible effort to collect indigenous production.

(d) The importance of maintaining the rice component of the ration throughout the year can not be overemphasized. If the rice component is out in Japan and Korea immediately prior to collecting the new crop, it will be a physical impossibility to avoid black marketing and hoarding.

(e) Japan will require approximately 2,200,000 metric tons of imported food (brown rice equivalent) in FY 1949. Of this, 1,650,000 should be cereals or cereal substitutes. It may be possible to substitute up to 300,000 tons of sugar and pulses for cereals, leaving a net cereal import requirement of 1,350,000 tons.

(f) The significance of imported fertilizers for both Korea and Japan is stressed most strongly and it is absolutely essential that the Army retain its sources of American nitrates unless it is prepared to import much larger stocks of food. Japan and Korea make better use of their fertilizers than any of the other countries visited.

(g) Increasing amounts of food in the Far East will become available for shipment to Japan in calendar year 1949. However, relatively small quantities only available from this area during the critical period (June - October) immediately ahead.

(h) Maximum availabilities of Far Eastern foods should be procured for Japan and these procurements tied in closely with the export of Japanese products.

(i) Japan has no prospect of becoming self-supporting except through a high degree of industrial and maritime activity. There are many obstacles to achieving this goal which it is believed are not fully appreciated in

SECRET

~~SECRET~~

-11-

Washington. The most significant of these obstacles are: (1) Reluctance of other Far Eastern countries to assist Japanese recovery. (2) Intense nationalism on the part of Asiatic countries coupled with a determination to achieve national self-sufficiency. (3) Currency exchange difficulties. (4) Travel restrictions on business men, particularly, Japanese nationals. (5) A growing tendency on the part of Asiatic countries toward government-controlled economies. While it is possible to obtain certain basic commodities, such as rice, on a government-to-government basis, negotiations are necessarily too cumbersome to favor trade in the large number of consumer items which Japan produces.

Prepared by the direction of:
Colonel M. H. Vissering, GSC
Executive Officer
Office of the Food Administrator for
Occupied Areas, Department of the Army

~~SECRET~~